

Message Text

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ACTION EUR-08

INFO OCT-01 SS-14 ISO-00 NSC-05 NSCE-00 SP-02 L-01
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FM AMEMBASSY ROME
TO SECSTATE WASHDC 5743
TREAS DEPT WASHDC
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY PARIS

C O N F I D E N T I A L SECTION 1 OF 2 ROME 11120

LIMDIS

USEEC USOECD

DEPARTMENT PASS EXIMBANK AND FRG

E. O. 11652: GDS
TAGS: PFOR, EFIN, IT, US
SUBJ: POSSIBLE FINANCIAL QUESTIONS FOR ANDREOTTI VISIT

1. SUMMARY. DURING COURTESY CALL JULY 6,
ADVISER TO BANK OF ITALY, PROFESSOR FRANK TAMAGNA, TOLD
AMBASSADOR AND TREASATT OF SEVERAL FINANCIAL TOPICS WHICH
HE HAD INCLUDED IN BRIEFING PAPER FOR BANK OF ITALY GOVERNOR
BAFFI IN CONNECTION WITH PRIME MINISTER ANDREOTTI'S VISIT
TO WASHINGTON JULY 26 AND 27. SUBJECTS COVERED WERE: (1)
POSSIBLE GOVERNMENT-TO-GOVERNMENT LOAN, (2) REFINANCING OF
ITALY'S FOREIGN DEBT, (3) POSSIBLE DISCOUNT FACILITY FOR
EXPORTS BY INDUSTRIAL COUNTRIES WHICH ENCOUNTER FINANCIAL
DIFFICULTIES, (4) ITALY'S CREDIT RATING BY COMPTROLLER OF
THE CURRENCY AND FEDERAL RESERVE, AND (5) US-ITALY TRADE
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ISSUES. EXCEPT FOR TRADE ISSUES, IT IS BY NO MEANS
CERTAIN THAT THESE SUBJECTS WILL BE RAISED BY ITALIANS.
HOWEVER, USG AGENCIES SHOULD BE AWARE OF THAT POSSIBILITY.
END SUMMARY.

2. PROFESSOR FRANK TAMAGNA, PROFESSOR EMERITUS AT
AMERICAN UNIVERSITY IN WASHINGTON AND LONG-TIME ADVISER

TO BANK OF ITALY AND VARIOUS ITALIAN COMMERCIAL BANKS, MADE COURTESY CALL ON AMBASSADOR GARDNER JULY 6. PROFESSOR TAMAGNA COMMENTED THAT BOI GOVERNOR BAFFI HAD ASKED HIM TO PREPARE A BRIEFING MEMO ON FINANCIAL ISSUES WHICH ITALIANS MIGHT WANT TORAISE DURING ANDREOTTI'S WASHINGTON VISIT.

3. GOVERNMENT-TO-GOVERNMENT LOAN. PROFESSOR TAMAGNA SAID THAT HE HAD ADVISED AGAINST ITALIANS MAKING ANY KIND OF PROPOSAL FOR DIRECT USG LOAN TO ITALY ON GROUNDS THAT SUCH AN APPROACH WOULD LIKELY REQUIRE BUDGETARY APPROPRIATIONS BY US CONGRESS AND WOULD PLACE ITALY IN SAME CATEGORY AS DEVELOPING COUNTRIES. THIS WOULD HAVE UNFAVORABLE EFFECT ON ITALY'S CREDIT RATING AND SHOULD NOT BE ATTEMPTED. TAMAGNA THOUGHT THAT BAFFI AND BOI DIRECTOR GENERAL MARIO ERCOLANI AGREED WITH THIS VIEW. EXCEPT FOR ONE RECENT ARTICLE IN SENSATIINALIST WEEKLY, "ESPRESSO", WHICH REFERRED TO MULTI-BILLION DOLLAR MARSHALL PLAN FOR ITALY, EMBASSY HAS NO EVIDENCE EITHER THAT GOI PLANS TO REQUEST USG DIRECT CREDIT OR THAT ITALIAN PUBLIC EXPECTS ANYTHING OF THE SORT TO EMERGE FROM ANDREOTTI VISIT.

4. FOREIGN DEBT. TAMAGNA SAID THAT, IN MEMO TO BAFFI ON QUESTION OF ITALY'S FOREIGN DEBT REPAYMENT SCHEDULE IN NEXT FEW YEARS, HE HAD STRESSED IMPORTANCE OF ITALY'S MAINTAINING GOOD INTERNATIONAL CREDIT RATING BY AVOIDING CONFIDENTIAL

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ANY ATTEMPT TO RESCHEDULE EUROMARKET PRIVATE DEBT. HOWEVER, HE HAD SUGGESTED THAT REPAYMENT PROBLEM MIGHT BE ALLEVIATED THROUGH NEW CREDITS WHICH COULD, IN FACT, BE USED TO FINANCE SCHEDULED REPAYMENTS. FOR EXAMPLE, HE HAD SUGGESTED POSSIBILITY OF EXPLORING MEDIUM-TERM LINE OF CREDIT FROM EXIMBANK TO FINANCE ITALIAN IMPORTS FROM U.S. THIS WOULD RELEASE FOREIGN CURRENCY EARNINGS FROM OTHER SOURCES TO BE APPLIED TO ITALY'S FOREIGN DEBT REPAYMENT SCHEDULE. TAMAGNA HAD ALSOSUGGESTED POSSIBILITY OF SOME RESCHEDULING OF COMPENSATORY LOAN MATURITIES ON DEBTS TO FOREIGN OFFICIAL BODIES. THREASATT SAID THAT, WHILE EXIMBANK HAD OCCASIONALLY GIVEN BALANCE OF PAYMENTS LINES OF CREDIT IN THE PAST, THAT SUCH CREDITS HAD BECOME RARE AND PROSPECTS WERE NOT GOOD FOR ANY NEW CREDIT OF THIS KIND TO ITALY. IN SEPARATE MEETING WITH TAMAGNA AFTER SESSION WITH AMBASSADOR, TREASATT POINTED OUT THAT CONCENTRATION OF REPAYMENTS ON COMPENSATORY DEBT IN 1978 WAS DUE TO REPAYMENTS ON CREDITS FROM FOREIGN OFFICIAL BODIES (BUNDESBANK, EC AND IMF). TREASATT THOUGHT THAT IT MIGHT BE DIFFICULT FOR U.S. TO PROVIDE ANY NEW FINANCING WHICH WOULD BE USED TO REPAY OTHER OFFICIAL CREDITORS. ON OTHER HAND, THERE MIGHT BE POSSIBILITY OF

RESCHEDULING THESE REPAYMENTS.

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5. DISCOUNT FACILITY FOR INDUSTRIAL COUNTRIES' EXPORT CREDITS. PROFESSOR TAMAGNA SAID THAT GOVERNOR BAFFI WAS STILL INTERESTED IN SOME METHOD OF REFINANCING EXPORT CREDITS GRANTED BY INDUSTRIAL COUNTRIES FALL INTO BALANCE OF PAYMENTS PROBLEMS. TAMAGNA SAID THAT HE HAD SUGGESTED POSSIBILITY OF ITALIANS' SEEKING U.S. SUPPORT FOR A STUDY BY WORLD BANK OR BY OECD CONCERNING FEASIBILITY OF NEW DISCOUNT FACILITY WITH ONE OF THOSE TWO BODIES. IN SEPARATE MEETING, TREASATT ASKED TAMAGNA WHETHER DISCOUNT FACILITY WOULD BE LIMITED TO EXPORT CREDITS TO DEVELOPING COUNTRIES ONLY, OR WHETHER IT MIGHT ALSO BE AVAILABLE FOR DISCOUNTING OF EXPORT CREDITS TO EASTERN EUROPE INCLUDING USSR, (LARGE PART OF ITALY'S OUTSTANDING EXPORT CREDITS ARE WITH USSR AND EASTERN BLOC.) TAMAGNA SAID THAT, OBVIOUSLY, ITALY WOULD BE INTERESTED IN POSSIBILITY OF

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REDISCOUNTING CREDITS TO EASTERN BLOC AS WELL AS CREDITS TO LDC'S. TREASATT EXPRESSED DOUBTS THAT USG WOULD BE INTERESTED IN SUPPORTING CREATION OF DISCOUNT FACILITY FOR ITALIAN CREDITS TO USSR. HE SUGGESTED THAT ITALY SHOULD PERSIST IN ITS EFFORTS TO OBTAIN NEGOTIABLE TRADE PAPER FROM USSR IN CONNECTION WITH CURRENT GOI-USSR CREDIT NEGOTIATIONS.

6. CREDIT RATING BY U.S. BANK EXAMINERS. PROFESSOR TAMAGNA SAID THAT HE HAD FRANKLY DISCOURAGED ITALIANS FROM RAISING QUESTION OF SUPPOSED "CLASSIFICATION" BY COMPTROLLER OF THE CURRENCY AND FEDERAL RESERVE OF LOANS TO ITALIAN BORROWERS. HE HAD ARGUED THAT, IN CARRYING OUT THEIR RESPONSIBILITIES, U.S. BANK EXAMINERS COULD NOT FAIL TO TAKE INTO ACCOUNT ALL FACTORS IN ITALY WHICH IMPINGE ADVERSELY UPON ABILITY OF ITALIAN BORROWERS TO REPAY LOANS FROM U.S. BANKS. INTERVENTION AT POLITICAL LEVEL WOULD NOT BE HELPFUL.

7. TRADE ISSUES. FIRST, TAMAGNA SAID THAT HE HAD SUGGESTED THAT ITALIAN DELEGATION EXPRESS APPRECIATION FOR EXCLUSION OF ITALY FROM QUOTAS OR MARKETING AGREEMENTS ON ITALIAN SHOE EXPORTS TO THE U.S. SECONDLY, HE HAD SUGGESTED THAT ITALIANS STRESS IMPORTANCE TO ITALY OF TEXTILE EXPORTS AND HOPE THAT U.S. WOULD NOT IMPOSE ANY NEW BARRIERS. FINALLY, TAMAGNA HAD SUGGESTED THAT ANDREOTTI MAKE A GENERAL PITCH IN FAVOR OF CONTINUED FREE ACCESS TO U.S. MARKETS FOR ITALIAN EXPORTS, SINCE ITALY IS NOW ATTEMPTING TO MAKE DIFFICULT BALANCE OF PAYMENTS ADJUSTMENTS REQUIRED BY ENERGY CRISIS BY REDUCING DOMESTIC CONSUMPTION AND INCREASING EXPORTS.

8. COMMENT. IT IS BY NO MEANS CERTAIN THAT ANY OF THE
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ABOVE SUBJECTS, EXCEPT TRADE ISSUES, WILL BE RAISED BY ANDREOTTI OR HIS DELEGATION DURING WASHINGTON VISIT. HOWEVER, IT IS POSSIBLE THAT ONE OR ANOTHER OF THESE SUBJECTS WILL BE TOUCHED UPON EITHER IN MEETING WITH PRESIDENT CARTER OR IN MEETING WITH SECRETARY BLUMENTHAL, SINCE GOVERNOR BAFFI WILL CERTAINLY MAKE SOME CONTRIBUTION TO ITALIAN POSITIONS NOW BEING DEVELOPED IN ROME PRIOR TO ANDREOTTI'S DEPARTURE. GARDNER

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Message Attributes

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